

Message Text

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ACTION COME-00

INFO OCT-01 ARA-10 ISO-00 EB-08 FEAE-00 /019 W
-----141307Z 070002 /53

R 132010Z APR 77
FM AMCONSUL SAO PAULO
TO SECSTATE WASHDC 7631
INFO AMEMBASSY BRASILIA
AMCONSUL RIO DE JANEIRO
AMCONSUL SALVADOR
AMCONSUL PORTO ALEGRE

UNCLAS SECTION 1 OF 2 SAO PAULO 0904

FROM COMMERCIAL COUNSELOR

E.O. 11652: N/A
TAGS: ECEM, BR
SUBJ: THIRD PETROCHEMICAL POLE

REF: STATE 049005

1. THE LETTER OF INTENT FOR CONSTRUCTION OF THE CORE UNIT THIRD PETROCHEMICAL POLE, LOCATED IN RIO GRANDE DO SUL (COPESUL), WAS SIGNED DURING THE WEEK OF MARCH 7TH WITH A FRENCH FIRM TECHNIP WHICH WILL CONSTRUCT THE CORE UNIT IN COLLABORATION WITH A DUTCH FIRM, K.T.I. THE CONTRACT, WHEN SIGNED, WILL CALL FOR "MECHANICAL COMPLETION" OF THE UNIT IN OCTOBER, 1980, WITH ACTUAL PRODUCTION BEGINNING IN EARLY 1981. BRAZIL'S PUBLIC-SECTOR PETROCHEMICAL FIRM, PETROQUISA, EXPECTS ORDERS TO BE PLACED BEFORE THE END OF 1977 FOR THE MAJOR PLANT EQUIPMENT. A PETROQUISA SOURCE HAS INFORMED AMCONGEN, RIO DE JANEIRO THAT THE AMOUNT OF TECHNOLOGY TRANSFER PLAYED A LARGE ROLE IN THE AWARDING OF THE CONTRACT FOR COPESUL. HE STATED THAT THE BID OF THE WINNING FIRM DID NOT OFFER THE LOWEST PRICE, BUT DID INCLUDE THE MOST SIGNIFICANT TRANSFER OF TECHNOLOGY. HE ALSO INDICATED THAT TECHNOLOGY TRANSFER WOULD, NO DOUBT, PLAY A MAJOR ROLE IN DECIDING UNCLASSIFIED

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AMONG COMPETING BIDS FOR DOWNSTREAM PROJECTS.

2. WHILE COPESUL ITSELF IS 100 PERCENT GOVERNMENT-OWNED, THE DOWNSTREAM PLANTS WILL NOT BE WHOLLY GOVERNMENT-OWNED. A PETROQUISA SOURCE TELLS US THAT THERE HAS BEEN A CHANGE IN GOVERNMENT POLICY REGARDING OWNERSHIP OF PLANTS WHICH WILL BE SUPPLIED BY COPESUL'S OUTPUT. HE STATED THAT THE EFFECT OF THIS

POLICY CHANGE WAS TO REDUCE THE OWNERSHIP SHARE OF THE GOVERNMENT. NEVERTHELESS, ALL OF THE DOWNSTREAM INVESTMENT PROPOSALS APPROVED TO DATE HAVE A MAJORITY BRAZILIAN OWNERSHIP (GOVERNMENT AND PRIVATE COMBINED). EACH OF THE SECOND-GENERATION, DOWNSTREAM PLANTS WHICH WILL PRODUCE INTERMEDIATE PETROCHEMICAL PRODUCTS FOR BRAZIL'S THIRD PETROCHEMICAL POLE ARE BEING ESTABLISHED BY JOINT-VENTURE COMPANIES UNDER LICENSE OR CONCESSION FROM BRAZIL'S COUNCIL OF INDUSTRIAL DEVELOPMENT (CDI). THE JOINT VENTURE COMPANIES ARE GENERALLY COMPRISED OF A PRIVATE BRAZILIAN FIRM, A FOREIGN SHAREHOLDER AND PETROQUISA, BRAZIL'S STATE-OWNED CHEMICAL COMPANY -- WITH PETROQUISA AND THE PRIVATE BRAZILIAN FIRM COVERING ABOUT TWO THIRDS OF THE CAPITAL INVESTMENT. EACH JOINT-VENTURE COMPANY IS RESPONSIBLE FOR ENGINEERING, CONSTRUCTION AND OPERATION OF ITS PLANT. AMERICAN FIRMS THAT WISH TO PARTICIPATE IN THE SECOND-GENERATION DEVELOPMENT OF THE THIRD PETROCHEMICAL POLE MAY THEREFORE WISH TO CONTACT THE JOINT-VENTURE COMPANIES LICENSED BY CDI. FIVE SECOND-GENERATION PLANTS HAVE BEEN LICENSED TO DATE. THEY ARE:

A. POLIEFINAS S/A, 408 AVENIDA DUQUE DE CAXIAS IN SAO PAULO. U.S. SHAREHOLDER IS NATIONAL DISTILLERS AND CHEMICAL CO. RECEIVED LICENSE TO ESTABLISH A PLANT TO PRODUCE 115 THOUSAND TONS OF LOW DENSITY PLOYETHYLENE PER YEAR.

B. POLITENO S.A. - A PETROQUISA AFFILIATE. (PETROQUISA S.A., AV. RIO BRANCO 81, RIO DE JANEIRO). FOREIGN SHAREHOLDER AND TECHNOLOGY SUPPLIER IS SUMITOMO CHEMICAL CO. RECEIVED LICENSE TO ESTABLISH ANOTHER PLANT TO PRODUCE 100 THOUSAND TONS OF LOW-DENSITY POLYETHYLENE.
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C. FORMOSA PLASTIC CO. OF TAIWAN IN JOINT-VENTURE WITH PETROQUISA AND OLVEBRA S.A. OF PORTO ALEGRE. RECEIVED LICENSE TO ESTABLISH A PLANT TO PRODUCE 240 THOUSAND TONS OF PVC AND PVC PER YEAR.

D. FABOR S.A. A SUBSIDIARY OF PETROQUISA, TO ESTABLISH PLANT TO PRODUCE 70 THOUSAND TONS OF SBR RUBBER PER YEAR.

E. HOECHST OF GERMANY, PETROQUISA AND GROUPO IPIRANGA, TO ESTABLISH A PLANT TO PRODUCE 60 THOUSAND TONS OF HIGH-DENSITY POLYETHYLENE.

3. THE REMAINING SECOND-GENERATION PLANTS TO BE LICENSED ARE FOR THE PRODUCTION OF STYRENE, POLYSTYRENE, AND POLYPROPYLENE. CDI HAS NOT YET CHOSEN LICENSEES. AMONG THE FIRMS SUBMITTING BIDS FOR THESE PLANTS ARE:

A. STYRENE: DOW CHEMICAL HAS BID FOR A LICENSE TO ESTABLISH

100 THOUSDAND TON PLANT. A PETROQUISA AFFILIATE, OXITENO S.A., HAS SUBMITTED A BID TO PRODUCE 125,000 TONS PER YEAR OF STYRENE AND 50,000 TONS PER YEAR OF PROPENE OXIDE, WITH TECHNOLOGY TO BE SUPPLIED BY HALCON INTERNATIONAL INC.

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R 132010Z APR 77
FM AMCONSUL SAO PAULO
TO SECSTATE WASHDC 7632
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B. POLYSTYRENE: MONSANTO OF THE U.S. HAS SUBMITTED A BID FOR A PLANT WITH 100 THOUSAND TONS CAPACITY. A PETROQUISA AFFILIATE, ESTIRENO DO NORDESTE S.A., HAS EPORTEDLY SUBMITTED A BID FOR A PLANT OF 45 THOUSAND TON CAPACITY WITH TECHNOLOGY SUPPLIED BY FOSTER GRANT CO., OF THE U.S.

C. POLYPROPYLENE: FOUR FOREIGN FIRMS ARE COMPETING FOR A LICENSE TO ESTABLISH A PLANT TO PRODUCE 50,000 TONS OF POLYPROPYLENE. THEY ARE: SOLVAY OF BELGIUM, SHELL, MONTEDISON OF ITALY AND HERCULES CHEMICAL OF THE U.S.

4. COMMENT: CDI AND PETROQUISA HAVE BARGAINED HARD FOR FAVORABLE TERMS FROM FOREIGN COMPANIES SEEKING LICENSES TO ESTABLISH PLANTS IN THE THIRD POLE -- E.G., FULL DISCLOSURE AND TRANSFER OF TECHNOLOGY, MAXIMUM LOCAL PROCUREMENT OF EQUIPMENT AND SERVICES, AND INTEGRATION INTO JOINT-VENTURES OF LOCAL BRAZILIAN FIRMS WITHOUT PREVIOUS EXPERIENCE IN THE CHEMICAL INDUSTRY. FOR EXAMPLE, CDI AND PETROQUISA ARE GENERALLY BELIEVED TO HAVE AWARDED THE ENGINEERING CONTRACT OF THE POLE'S CORE UNIT AND MASTER PLAN TO TECNIP OF FRANCE BECAUSE OF TECNIP'S GREATER WILLINGNESS TO FULLY DISCLOSE AND TRANSFER CHEMICAL-PROCESS TECHNOLOGY. FOR THE SECOND-GENERATION PLANTS, HOWEVER, THERE ARE STRONG INDICATIONS THAT SOME FOREIGN FIRMS ARE BALKING AT BRAZILIAN TERMS, PARTICULARLY IN UNCLASSIFIED

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TRANSFERRING SENSITIVE CHEMICAL PROCESS TECHNOLOGY UNDER CURRENT BRAZILIAN INDUSTRIAL PROPERTY LAWS THEREFORE, MOST LICENSES MAY BE WON BY JOINT-VENTURES DOMINATED BY PETROQUISA AFFILIATES WITH OLD AND EVEN SOMEWHAT OBSOLETE FOREIGN TECHNOLOGY PREVIOUSLY OBTAINED BY A BRAZILIAN SUBSIDIARY. THIS COULD MEAN THAT THE INSTALLATIONS FOR THE THIRD POLE MAY BE QUITE SIMILAR OR DUPLICATES OF OPERATING FACILITIES LOCATED AT THE OTHER TWO POLES IN SAO PAULO AND BAHIA -- WITHOUT NEW FOREIGN PARTICIPANTS OR NEW TECHNOLOGY. IF FOREGOING IS TRUE, OPPORTUNITIES FOR U.S. ENGINEERING FIRMS TO OBTAIN SUB-CONTRACTS FOR SECOND-GENERATION PLANTS WILL BE LIMITED BECAUSE, BASED ON EXPERIENCE GAINED FROM SAO PAULO AND BAHIA PETROCHEMICAL POLES, MOST CIVIL ENGINEERING, PLANT CONSTRUCTION AND EQUIPMENT ASSEMBLY CAN BE DONE BY BRAZILIAN FIRMS. ALSO, COMPANIES ALREADY LICENSED TO BUILD SECOND-GENERATION PLANTS PROBABLY HAVE, IN THEIR CONTRACT WITH CDI, LIMITATIONS OF THEIR FREEDOM TO SUB-CONTRACT SERVICES, OR WERE SPECIFICALLY CHOSEN BY CDI BECAUSE THEY HAVE IN-HOUSE ENGINEERING CAPABILITY WITH NO NEED TO IMPORT TECHNICAL ASSISTANCE. NEVERTHELESS, THE SITUATION IS FLUID; SOME JOINT-VENTURES ARE SHOWING SIGNS OF INSTABILITY, THERE IS CONSIDERABLE CONCERN OVER POSSIBLE SHORTAGES OF QUALIFIED PERSONNEL AND FINANCIAL RESOURCES -- SOME PLANT LICENSES MAY BE RENEGOTIATED. OPPORTUNITIES FOR U.S. EQUIPMENT SUPPLIERS ARE CONSIDERED GOOD SINCE MUCH OF THE EQUIPMENT NEEDED FOR THE POLE IS NOT PRODUCED IN BRAZIL.

5. THIS REPORT WAS PREPARED BY AMCONSUL, PORTO ALEGRE, WITH CONTRIBUTIONS FROM AMCONGEN, RIO DE JANEIRO.

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Message Attributes

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